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500 Days: Shatalin at Columbia

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Soviet Economic Reform: A Tale of Two Plans

by Padma Desai

Two caveats *need to be entered. First, this essay is an effort at interpretation: the two plan documents compared in it are at times characterized by ambiguity, reflecting perhaps the traditional political art of seeking consensus by semantic obfuscation. Second, the Soviet situation remains highly volatile. Originally a comparison of the (now-defunct) Ryzhkov plan and that of Shatalin, the essay was quickly rewritten to compare the Shatalin and Gorbachev plans. But, no matter what cataclysmic political and economic events overtake the Soviet scene, the dramatic confrontation and interplay of the Shatalin and Gorbachev plans will shape the course of Soviet economic reform. This, and the widespread but rather hasty presumption that the Shatalin plan was superbly crafted and the Gorbachev plan was a compromise and a calamity, are reasons enough to write this essay.*

Introduction

The Shatalin plan and the Gorbachev plan have for now emerged as the final contenders in the pellmell process of "planomania" on the Soviet scene.[1]

The former, clearly inspired by the original 500-day plan of Boris Yeltsin, was put together by a joint team of advisors to Gorbachev and Yeltsin under the guidance of Stanislav Shatalin, a member of Gorbachev's Presidential Council. It has been approved by the Supreme Soviet of the Russian republic with one dissenting vote. On the other hand, the Gorbachev plan, which eliminates in essence the drastic timetable of the Shatalin plan, surfaced as the Presidential choice among more and less radical alternatives. It was accepted by the Supreme Soviet on 19 October 1990 with an overwhelming vote.

The stage is now set for approval of either plan by the republics (except for the Baltic and Russian republics which have already voted in favor of the Shatalin plan). Whatever the outcome, the critical phase of transition to markets in the Soviet economy has begun.

In their acceptance of markets, both plans represent a decisive ideological break from the Stalinist planned system. In their proposed rearrangement of the union-republic[2] relationship, both aim at ultimately reshaping the Soviet Union cemented as a monolithic unit under Stalin. They acknowledge that the old order of an administered economy and a centralized state has failed. But more than that, they are both inspired by a philosophical tradition alien to Marxism-Leninism; the voices that one hears belong to Adam Smith and Joseph Schumpeter. Thus, the Shatalin plan declares: "Mankind has not managed to create anything more efficient than a market economy." (The Transition, p.14). Note the equal-

1 The citations below refer to the Shatalin plan as The Transition and to the Gorbachev plan as Basic Guidelines, in keeping with their titles, respectively, *The Transition to the Market, Part 1, Conception and Program*, prepared by the Working Group formed under a joint decision of M.S. Gorbachev and B.N. Yeltsin, Moscow, August 1990, and *Basic Guidelines for Stabilization of the National Economy and Transition to a Market Economy*, Moscow, 16 October 1990. The page references are to the English translations of these two documents, to facilitate wider access to the original plans.

2 In this essay, the center is referred to as the "union" whereas "state" refers to either the union or the republic.

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ly ringing endorsement in the Gorbachev document: "There is no alternative but to switch to a market. Experience the world over has shown the viability and effectiveness of the market economy." (Basic Guidelines, p. 1). The rough and tumble of the markets and innovative entrepreneurship are the proclaimed goals of both plans. But these common features of the two plans yield to serious dissimilarities elsewhere.

Two differences stand out and provide the framework for the analysis offered below.

The first relates to the contrasting conception of union-republic relations, and the division of rights and responsibilities that follows. The Shatalin plan, reflecting its origin in (and compromise with) the Yeltsin plan, works from the autonomy of the republics to the surrender of powers to the Soviet Union, while the Gorbachev plan, despite many similarities, is conceptually derived the other way around: from the union's primacy to surrender of powers to the republics. The giveaway is the Shatalin plan's frequent focus on the republics where the Gorbachev plan looks to the union.[3] Key differences derive from this contrast, raising questions about the extent of republic autonomy and the related issue of how the role of the government (whether republic or union) is envisaged in the ultimate "steady state" of a market economy to which transition is sought.

The second difference relates to the 500-day timetable of the Shatalin plan and the absence of a Procrustean time frame in the Gorbachev plan. God created the world in seven days. The Shatalin plan allows for 500 days but faces a far more difficult agenda. Its demanding schedule also necessitates a clearer specification of the sequencing of different components of the reform program than is to be found in the Gorbachev plan. The absence of a strict timetable in the latter may be explained in various ways.

For instance, it might be suggested that, since both plans have many common features, Gorbachev was keen to put his stamp on the final plan by removing the 500-day feature popularly associated with Yeltsin.[4] Alternatively, the dropping of the 500-day timetable and, with it, the Shatalin plan, may reflect Gorbachev's attempt to resolve the paralysis in which he found himself in September 1990. By that time, a political deadlock had engulfed central decisionmaking. Yeltsin, armed with almost unanimous approval of the Shatalin plan by his legislators, had signaled with characteristic flamboyance his disapproval of the alternative Ryzhkov plan, then under consideration by the USSR Supreme Soviet, saying: "One cannot combine a hedgehog with a snake." The slow-speed Ryzhkov plan was the hedgehog, the fast-track Shatalin plan, reflecting Yeltsin's views, the snake. (The metaphor's additional implications seem to have eluded Yeltsin.) Prime Minister Ryzhkov, on his part, threatened to resign if the Shatalin plan was accepted. The central legislators were hardly enthusiastic about the Shatalin document; in their view, its frontal attack on the *status quo* would accentuate rather than ameliorate the growing disintegration of central authority and economic chaos. While Gorbachev had extracted emergency powers from the Supreme Soviet (on September 24, 1990), he was in the predicament of not having an agreed-upon plan to implement with these powers. The compromise Gorbachev plan was evidently aimed at placating Ryzhkov and the legislators who, in fact, adopted it on 19 October 1990. (However, the strategy did not work in pulling on board the supporters of the Shatalin plan, nor Yeltsin and the Russian republic which, as late as 16 November 1990, had refused to implement directives issued by the union under Gorbachev's emergency powers.)

Political considerations apart, the following analysis argues that, on purely economic grounds, the Shatalin plan's 500-day time frame and its specifics on republic-union economic relations were ill-crafted. Gorbachev's rejection of the Shatalin plan on these grounds was prudent and reasonable. The Gorbachev plan nonetheless suffers from serious shortcomings in its transitional strategy and needs to be modified to make it more effective as a roadmap to a market-based Soviet economy.[5]

How Much Republic Autonomy? How Much Government?

The two plans have critical differences concerning the conceptualization of union-republic division of rights and obligations. At the very outset, however, it is necessary to underline the common theme of both plans in this regard.

3 In consonance with the Basic Guidelines document, Gorbachev's frequent pronouncements refer to "our country."

4 In fact, the absence of the 500 days may exaggerate the differences between the Gorbachev and Shatalin plans. Shatalin has suggested in private conversations that the 500-day timetable is not set in cement. And Gorbachev's recent decrees on price reform appear to be following the fast-track schedule of the Shatalin plan anyway.

5 These modifications are advanced at the end of this essay and reflect the analysis in Chapter 10, "Perestroika: Retrospect and Prospect," of the paperback edition of my *Perestroika in Perspective: The Design and Dilemmas of Soviet Reform*, Princeton University Press, 1990. Their key features derive from the "Desai Plan" in an article detailing the major plans for Soviet reform in *The International Economy*, October/November 1990.

Common Themes

They agree that currently excessive governmental authority is centered in Moscow and that there is too much of it at all levels. Therefore, both plans call for the devolution of substantial political (and economic) power to the republics and for a massive shift to functioning markets.

The Shatalin plan states, and the Gorbachev plan does not disagree, that sovereign republics will implement individually the agenda of transforming hitherto-unitary political, social, and economic structures. The plan endorses economic integration of the republics but emphasizes that it will be based "exclusively on mutual interest and equal partnership." (The Transition, p. 17). An inter-republican committee, to be set up under the auspices of the union President, will have "full powers to exercise efficient and flexible control over the reform process." (The Transition, p. 31). In the Gorbachev plan, sovereign republics derive the material basis of their sovereignty from the resources located in their territory; they can regulate the possession, use, and disposal of these resources via legislation. They are responsible for developing their territories. Moreover, "each sovereign republic can enact and implement legislation to achieve the transition to a market economy taking account of its socioeconomic condition, local features and history." (Basic Guidelines, p.3). However, while the republics are sovereign and equal, the integrity of the union as a federation must be preserved. The union and the republics must coordinate their activities during the transition to markets.

Along with this agenda, a Western-style market economy is envisaged by both plans. According to the Gorbachev plan, "the enterprise is the basis of the economy and the state is responsible for creating a favorable environment for its activity." (Basic Guidelines, p. 3). Again, "competition among producers is vital for stimulating economic activity, increasing product diversity, improving output quality, lowering costs and stabilizing prices." (Basic Guidelines, p. 2). Except in a few items, prices must ultimately result from the free interaction of supply and demand. Among the few areas of nonmarket activity are defense, health care, education, science, and culture where "commercial criteria" cannot be applied (Basic Guidelines, p. 2). Furthermore, while state regulation of the economy will be conducted by the republics and union according to the division of functions under either plan, the two plans agree that direct controls over enterprises' decisions to produce and invest (except with some restrictions on major investment projects, as noted below), to buy and sell, are to go. These decisions will be unfettered and will reflect the enterprises' autonomous responses to market forces and state regulation via interest rate policy, for example.[6] The two plans agree on the ultimate target of the reform. However, the timing and sequencing are not identical.

Division of Union-republic Tasks: Similarities

The two plans also seem at first glance to share substantially the same vision of the allocation of tasks between the union and the republics although deeper scrutiny reveals a difference of conception with fundamental consequences. This allocation can be classified under four areas: political and economic infrastructure, macroeconomic coordination, investment policy, and inter-republic transfers.

(1) *Political and Economic Infrastructure*: Under the Shatalin plan, in the political sphere, the union will guarantee national security and provide for adequate defense capability. It will manage transport, communication, information and energy systems; control defense units, space research, and the nuclear power industry; and implement national measures in regard to ecological safety and disasters. It will create a single system of patents, weights and measures, and meteorological service, and organize all-union statistics and a common customs regime in cooperation with the republics.

In the Gorbachev plan, "the management of activities and targeted programs which demands unified leadership throughout the land is assigned to the union." (Basic Guidelines, p.4). The plan's list of activities to be managed by the union is not significantly different from that under the Shatalin plan (Basic Guidelines, p. 4).

(2) *Macroeconomic Coordination*: While advocating republic sovereignty, the Shatalin plan specifies a unifying macroeconomic role for the union. There will be a single currency, a common monetary policy and unified foreign exchange management. The banking system will be reorganized in the inevitable two layers, consisting of a central bank and commercial banks. The union will develop long-term economic forecasts, and implement a coordinated fiscal and monetary policy for purposes such

6 Interestingly enough, neither plan singles out any projects or any existing enterprise, except in defense, for state ownership. While, in principle, any industrial enterprise can be privatized, some undoubtedly will remain in union ownership, given the inevitably slow pace of privatization. Even in the Shatalin plan, 30 percent of industrial enterprises are to remain state-owned at the end of the plan. However, both plans single out activities, such as railways and energy pipelines, for union management.

as strengthening the purchasing power of the ruble with a view to ultimate convertibility. The Gorbachev plan echoes an identical macroeconomic role for the union (Basic Guidelines, p. 3).

(3) *Investment Policy*: Neither plan envisages that the enterprises will be totally free to allocate available funds among alternative uses according to market criteria, subject to monetary policy alone. Both plans contain provisions indicating that the state will play a role influencing the sectoral composition of investment (i.e., what, in Western parlance, would be described as "industrial policy"). In both, the union is assigned this task.

Thus, in both plans, major investment decisions will be retained under union control. According to the Gorbachev plan, the union will draft and implement major economic programs of national importance (Basic Guidelines, p. 4). In the Shatalin plan, the union will carry out structural shifts in the national economy via an active investment policy (The Transition, p. 27).

(4) *Inter-republic Resource Transfers*: In both plans, the union will be in charge of promoting inter-republic economic and social equality via mutually beneficial cooperation and assistance. A centralized extra-budgetary fund will be set up for such resource transfers.

Division of Union-republic Tasks: Differences

But these similarities are largely of shared broad-level objectives. Close examination in fact reveals substantive differences in the way the union-republic divisions of rights and tasks are contemplated and the consequences for implementing the shared objectives efficaciously. The conception of union-republic relations in the Shatalin plan is significantly different from and less efficaciousness than that in the Gorbachev plan.

(1) *The Conception of Union-republic Relations:* As noted in the introduction, the Shatalin plan starts with the republics and looks up to allow for the union; the Gorbachev plan starts from the union and looks down to allow for the republics.

In the Shatalin plan, with the republics the primary focus, the recurring objective is to eliminate the traditional monopoly of the union in several economic tasks, to restrict sharply the scope of existing hierarchical arrangements with power emanating from Moscow, and to give the republics a major and wider role.

Thus, for example, contrary to the declared objective of unified foreign exchange management (in common with the Gorbachev plan), the Shatalin plan declares that union monopoly of foreign exchange reserves must cease and the republics and local administrations must not only own such reserves, but also decide the union's share of such reserves (The Transition, p. 67).[7] The Shatalin plan states that all norms of wholesale, retail, and procurement prices announced by the Ryzhkov government are to be declared null and void in 1991, eliminating the current union monopoly in pricesetting. Where the plan concedes a role for fixed prices, as in basic materials and essential items, these again are to be set in consultation with the republics.

In the Gorbachev plan, by contrast, while the principle of consultation and agreement with the republics is embraced, the phrasing suggests that decisions on specific issues will come from the union. Indeed, the plan not only emphasizes the need for a "strong and efficiently organized state power" but also for a consensus "by bringing together all social forces that care about the fate of the country and its people." (Basic Guidelines, p. 23). More to the point, state power is to be revitalized by restoring to full operation the vertical chain of joint subordination (*sopodnichenie*). For example, the executive branch of the Russian republic will be subordinate to both the republic Supreme Soviet and the executive branch at the union level.[8] "Decisions adopted by higher organs within the limits of their competence are binding on lower organs." (Basic Guidelines, p. 23). At the same time, the Gorbachev plan recognizes that state power at the union level cannot be effectively deployed without the consent and active participation of the republics. Towards this end, the enhanced emergency powers of the President must be bolstered by a strengthened central Council of Federation which, under the Union Treaty that Gorbachev seeks immediately, would provide an institutionalized representation for the republics at the top level of the union government (Basic Guidelines, p. 23).

7 Gorbachev's own approach is revealed by a presidential decree of 2 November (*Pravda*, 3 November 1990, p.1), according to which the nation's foreign exchange earnings are to be divided into four categories: a union fund with Vneshekonombank for meeting the foreign debt obligations, the retained earnings of enterprises and organizations, a republic fund, and another union fund presumably giving the union sufficient resources for foreign exchange management until the ruble becomes convertible. Enteprises and organizations are required to hand over 40 percent of their foreign exchange earnings for the first union fund while being allowed to retain an unspecified amount for their own use. The residual is to be divided 90 percent/10 percent between the second union fund and republic discretionary spending under this formula, leaving possibly less than 5 percent of total foreign exchange earnings to be allocated for the latter use.

8 A law to that effect establishing a hierarchical authority of the republic executive branch over the lower organs at the autonomous republic and local administration levels *within* the Russian republic was adopted by the Russian republic Supreme Soviet in October 1990.

The Union Treaty will define changes in central governmental structure and demarcate the respective roles of the union and the republics. Clearly, it is important that it be signed. How can there be progress via legislation and its implementation on specific issues such as foreign exchange allocation and pricesetting without such a treaty? Gorbachev's view has been that the Union Treaty currently under consideration should be signed and the plan adopted by all the republics before legislation on specific issues of transition can begin.

But Yeltsin, ignoring the logic of this approach, has wanted to bypass the question of the Union Treaty and proceed immediately with implementing the features of the Shatalin plan in the Russian republic. At issue, more than the difference in the two plans, is Yeltsin's focus on the dominating Russian republic and disregard for the divisive implications of his actions for the Soviet Union. In the meantime, the absence of a coordinating mechanism (to be specified in the Union Treaty) has caused paralysis in the implementation of the recent decrees (ironically, most of them as much in line with the Shatalin plan as with the Gorbachev plan)[9] issued by Gorbachev under his emergency powers: the Russian republic, in particular, has proven obstreperous and "rejectionist."

(2) *Macroeconomic Management*: Also critical is the manner in which the union will raise resources to carry out its macroeconomic functions. Both plans charge the union with the responsibility of maintaining employment and steady growth in the economy, reducing inter-republic inequality, and conducting foreign exchange management for stabilizing the ruble. The ability to command adequate internal and external resources is critical for fulfilling these tasks. Yet the two plans differ on the key issue as to whether the union is given the necessary powers to play this role.

In the Shatalin plan, the authority to levy taxes belongs to the republics and local administrations. They will hand over a part of the revenues to the union according to some formula (which may take the republic GNP or per capita GNP as a possible criterion). The plan states: " The union budget will be based on republic tax contributions, enabling the union to exercise its delegated authority." (The Transition, p. 21). In the Gorbachev plan, by contrast, all levels have the powers to tax: "The Union bugdet will be formed from Union (federal) taxes. The tax rates and the items liable to taxation will be decided by agreement with the republics." (Basic Guidelines, p. 4). Again, recall that in the Shatalin plan the union is the residual recipient of the foreign exchange earnings of enterprises in various localities and republics, whereas in the Gorbachev plan the shares are to be specified by the union, albeit in agreement with the republics. All in all, therefore, while the Shatalin plan has endowed the union with macroeconomic responsibility, it fails to bolster it with a matching and clear authority to tax and to control foreign exchange earnings. The Gorbachev plan is unambiguously superior in this regard.

(3) *The Role of the State: Pricing, Production, Investment and Distribution*: The two plans are characterized by striking similarities in their conception as to what should *finally* emerge as the role of the state in regard to the key questions of pricing, production, investment and distribution. The differences relate to the speed and sequencing of the steps to be taken towards these largely-shared objectives.

(i)The plans agree on the need to privatize the existing enterprises. The Shatalin plan specifies ambitious and accelerating targets of privatization. The Gorbachev plan eschews such targets (which are probably beyond fulfilment if experience elsewhere is a guide) even though privatization is regarded as an essential objective. It equally elaborates the intention to assign ownership rights not only to private citizens but also to labor collectives, cooperatives, shareholders and, finally, foreign firms and individuals.

(ii)There is a parallel between the two plans in their approval of negotiated (i.e., flexible) prices.[10] Contrary to popular accounts, the Shatalin plan (and not just the Gorbachev plan) sees exceptions to the supply-and-demand-determined flexible prices in two major areas: (a) the prices of "basic materials" such as energy and ferrous metals; and (b) the prices of "essential" consumer

9 The first decree, announced on 27 September (*Pravda*, 28 September 1990, p.1). seeks to enforce existing contracts of enterprises for ensuring supplies of materials and spare parts. Local authorities can prosecute violators. The scond decree, of 4 October (*Pravda*, 5 October 1990, p.1), allows enterprises the freedom to charge negotiated prices (instead of prices fixed by the Price Committee) on their wholesale transactions. The third decree, of 2 November 1990 (*Pravda*, 3 November 1990, p.1), fixed the exchange rate of the ruble for trading enterprises at 1.8 rubles to the dollar (instead of 0.6 rubles to the dollar) and abolished the multiple exchange rates for export and import transactions. Foreign investors can now set up fully-owned enterprises and convert ruble profits into hard currency in foreign exchange auctions. The decree also specified shares of foreign exchange (discussed above) accruing to the union, the enterprises, and the republics. All the decrees (except the last insofar as it assigns a lion's share of foreign exchange earnings to the union and the enterprises while leaving a tiny fraction to the republics) conform to the relevant features of the Shatalin plan. The transition to the market has thus begun before the Union Treaty has been signed. Without the treaty, however, the decrees are unlikely to be implemented in full force by the republics.

10 Although "negotiated" may suggest to Western economists "administered" rather than flexible prices, it is used in the plans to mean the latter. I therefore follow Soviet practice here, for the most part.

goods.[11] Presumably, both plans recommend the former exception because of the presence of currently "unbreakable" monopolies in these sectors and the consequent need to regulate prices, and the latter exception to avoid social and political disruption.

Again, the difference is in the rapidity with which the prices of other sectors (not covered by these exceptions) are to be freed. The Gorbachev plan is more cautious. For example, it states that, in concluding contracts for 1991, enterprises are to use wholesale prices given in the USSR Council of Ministers' resolution 741 of 14 June 1988 (Basic Guidelines, p. 14). This injunction for the use of administered wholesale prices implies that virtually all prices will remain fixed in 1991.

The difference therefore is not in the conception of the targeted "steady state" at the end of the plan; rather, the optimal speed and strategy for getting there.

But one *caveat* about the Shatalin plan's intention to continue fixing the prices of 100-150 "essential" consumer goods, while most other prices in that category go free, needs to be mentioned. This is surely a recipe for *reducing* the supply of these consumer goods: a lesson we have learned in the West from the housing shortages that follow rent control. This inevitable consequence of the proposed price policy, which, by compounding shortages of essential items, can seriously undermine the credibility and commitment that the plan's fulfilment requires, apparently has not been appreciated by the Shatalin planners.

(iii) Both plans address the critical reorganizational issue raised by the fact that state control over economic activity, down to the enterprise level, is exercised by a vertical hierarchy of ministries and related agencies.

The Shatalin plan is explicit on the issue: the autonomy of economic decisions by enterprises must be granted. The plan presumably expects that the ministries will wither away on their own and does not generally target any of them for annihilation. The exceptions are *gossnab* and *agrosnab* (the state supply and agricultural supply agencies) and the ministry of (presumably only internal) trade: both to be replaced by a new contracting agency.

The Gorbachev plan too recommends a similar contracting agency (Basic Guidelines, p. 24) and, possibly naively, is equally optimistic about the ability to take ministries effectively out of enterprises' lives. Ministries are forbidden to interfere in the activities of enterprises, in the hope that carnivores will turn to self-denying vegetarianism. In fact, the plan urges that new structures must "consistently and inexorably" eliminate organs that do not meet the needs of the market economy (Basic Guidelines, p. 23). Both plans thus share reliance on exhortation and hope.

(iv) Finally, neither plan proposes a permanent role for the state in the distribution system. But both envisage a continuing role for the state in the distribution of selected, "essential" consumer goods.

The Shatalin plan, however, enters a different mode at the end of the plan. The number of "essential" consumer goods drops to less than a dozen--again, their weight in total consumption expenditure is not stated, so it is difficult to see what this reduction in coverage amounts to. At the same time, the plan now makes a distinction between flexible prices for *farms* for their produce and fixed prices for *consumers* for 15 million tons of food and 2 million tons of meat procured presumably from the farms at the (higher) flexible prices. As a result, we have dual prices and dual markets: the consumers get 17 million tons of farm produce at fixed prices and the rest of their consumption at flexible prices. The procurement system implies, of course, a subsidy on the 17 million tons and corresponding drain on the budget.

The Gorbachev plan seems to envisage a similar end-of-plan system of dual markets, confines it again to a similar menu of less than a dozen "essentials," but does not restrict itself to any quantitative limits (such as 17 million tons of farm produce in the Shatalin plan). Nor does it give estimates of the subsidy-and-budgetary costs of the dual-price system that is embraced.[12]

Transition: Sequential Stages and Economic Strategy

Significant differences emerge on the question of the economic strategy of transition to the end-states, quite aside from those noted in regard to the union-republic division of rights and responsibilities.

The plans' central difference in the transition strategy lies in the sequencing of the two essential tasks that both the plans have in common: the macro stabilization of the economy and the freeing of prices.

Put simply, the Shatalin plan sets up draconian targets on stabilizing the economy within the very first 100 days, using drastic cuts in the budget deficit, and then following

11 The Shatalin plan talks of a hefty 100-150 items as "essential" consumer goods in the early stages of the plan! While one would want to know what these items add up to as a share of domestic expenditure, they include some big-ticket expenditures, such as on meat and bread.

12 The progress to freeing prices for farm sales is, of course, slower in the Gorbachev plan for the "essential" agricultural products (Basic Guidelines, p. 13).

it up within the next 150 days with a tough monetary policy, with the shift to flexible prices (barring the important exceptions noted above) following within less than six months of the inauguration of the plan. Although, for obvious reasons, the plan does not describe this agenda as "shock therapy," that is what it amounts to.

By contrast, the Gorbachev plan, which shares four stages of unfolding policy, defined functionally but without time dimensions, sets up a slower pace, taking stabilization over a longer period. For example, where the Shatalin plan targets the budget deficit for termination by 31 March 1990, the Gorbachev plan talks more realistically of a lower but still sizeable target (of 3 percent of GNP as contrasted with 10-11 percent of GNP currently) and then only by the end of 1991. The brakes are to be applied, but not so suddenly.

At the same time, since stabilization is at lower speed, the Gorbachev plan intends to continue over a longer period the practice of administered (i.e. fixed by a resolution of the union Council of Ministers) prices for those items for which flexible prices are ultimately targeted. They will continue through 1991 whereas the Shatalin plan declares that all administered prices for these items will be null and void, beginning 1991.

Of course, the slowness of a shift to free prices and of the stabilization program in the Gorbachev agenda are functionally related. The freeing-up of prices can be dangerous when macroeconomic disequilibrium resulting from budget deficits and associated excess spending exists. Excess expenditure, fuelled by expectations of price increases and by wage increases fuelled by actual price increases, can then lead to an inflationary price spiral.[13]

However, neither the slowness of stabilization in the Gorbachev plan, nor its rapidity in the Shatalin plan, is desirable at present. The Gorbachev plan, on the whole, is to be preferred, but needs to be amended to quicken the pace of stabilization, and hence of the price reform that can be undertaken.[14]

The Shatalin plan is divided into four stages of 100, 150, 150 and 100 days.

Stage I: The primary emphasis in this stage is on cutting the budget deficit, though attention is paid to measures to mop up excess stocks of cash and also to completing the legal infrastructure to support the reforms promised in 500 days.

(i) The budget deficit is to be drastically rolled back through measures such as a 75 percent reduction in foreign aid and a 10-20 percent cutback of defense and KGB outlays in the remaining days of 1990. No budget program in excess of 100 million rubles will be approved for 1991 (except those related to Chernobyl). Expenditures in the range of 100 to 500 million rubles will have to be approved by the union and republic Supreme Soviets. All construction projects in early phases of start-up are to be suspended except those in consumer goods.

(ii) The proposed steps for soaking up existing liquidity in the economy are less draconian. Higher deposit rates will be offered to the public to attract their savings. Some state property—for example, army trucks—will be sold; garages will be constructed; people will be allowed to buy additional land for dachas. Small shops and factories will be leased. Imports of consumer goods will continue: this too soaks up cash from the public when the imported items are sold.

(iii) In addition, the plan will carry forward the necessary changes in infrastructure. In particular, *privatization* plans will be accelerated. The State Property Committee will start preparing guidelines for the privatization of large state enterprises. The republics will announce plans for the privatization of land. The right to quit a collective farm, with a fair share of assets, will be guaranteed to all farmers (and will not be contingent upon the collective farms' prior consent).

As regards the banking system, the current State Bank of USSR will be converted into the Reserve System of the Soviet Union, embracing the central banks of all the republics.[15] A single ruble rate will be established from 1 November 1990; multiple rates, resulting from the current system of "differentiated hard currency coefficients" for different imports and exports will have been abolished.[16] Incomes will be price-indexed, with the republics formulating and putting the indexation schemes in place by 1 November 1990. The current tax rates, with

13 These issues, and hence the need to bring macroeconomic disequilibrium under control prior to freeing prices, were analyzed in depth in my November 1989 *Forum* essay, "Perestroika, Prices, and the Ruble Problem."

14 Extensive discussion of the planned policy reforms is contained only in the first stage of the Gorbachev plan, and its loose time frame of "eighteen months to two years" till at least March 1992 coincides roughly with the period for which Gorbachev has been granted emergency powers by the Supreme Soviet. (Basic Guidelines, p.5.)

15 The draft legislation currently under consideration by the Supreme Soviet incorporating these changes is expected to pass before the end of the year.

16 The prsidential decree of 2 November abolished these multiple exchange rates and set the ruble exchange rate for export-import transactions at 1.8 rubles to a dollar.

minor adjustments proposed by republics, will be used for formulating the 1991 budget.

The Gorbachev plan's first stage lasts longer, till March 1992. But its agenda broadly goes over the same ground, albeit less ambitiously.

(i) The plan target of aggregate budget deficit for 1991 is set at 25 to 30 billion rubles, amounting to 2.5 to 3 percent of GNP. The deficit will be funded by borrowing from the public instead of from the state bank.

As in the Shatalin plan, expenditures will be curtailed by cutbacks in investment and by suspending construction projects in early stages (except those for consumer goods). From this alone, the budget deficit is expected to be reduced by 30 to 40 billion rubles (Basic Guidelines, p. 22). Further reductions will come from cuts in defense and KGB outlays. Susidies to enterprises, with a few exceptions, will come to an end.

At the same time, revenues are expected to rise from increased turnover tax flows resulting from higher prices (especially of imported goods) and from the sale of state property (for example, trucks and cars of state organizations). Turnover tax revenues are also expected to rise over time as a result of revised assessment methods and greater coverage of items. The current union tax legislation will be retained for 1991 and will include amendments proposed by republics.

(ii) The measures to soak up excess liquidity with the people are also similar to those in the Shatalin plan. The planners recommend offering higher interest rates on deposits,[17] building garages, selling small plots and houses.

(iii) Privatization is very much on the agenda. As in the Shatalin plan, privatization is to start with trading, services, construction, and small enterprises, and extend to conversion of small and medium enterprises into joint stock companies beginning in 1990. While labor collectives (aided by installment payments, discounts and credits) are to be assigned a priority in acquiring assets, hasty sale of state assets is to be avoided. The procedures will involve open auctions and competitive bidding.

As for land reform, the plan views a future with various forms of ownership, envisaging privatization as emerging ultimately from the choice offered to farmers to leave collective and state farms. The crucial decision of a farmer's right to leave is left to the republics to offer, should they so desire: "Republic organs of power will resolve the issue of a worker's right to freely leave a state or collective farm or other enterprise with a plot of land and his share of accumulated property provided that he undertakes private farming" (Basic Guidelines, p. 12).

Next is the legislation for private ownership. A presidential decree of October provided the framework for a free choice of various types of ownership — private, cooperative, collective, shareholding, and the like. Under the Gorbachev plan, these different forms of ownership are endowed with an equal legal status and are entitled to uniformly fair treatment (Basic Guidelines, p. 11).

The infrastructural agenda includes the setting up of a two-tier banking system, as in the Shatalin plan, by November 1990. It will have monopoly on the issue of money and will regulate money creation in the economy by changing reserve requirements and the discount rate. The chairman of the system will be appointed by the union President (Basic Guidelines, p. 15).

During Stage I, then, there are few differences of objectives and targets. But while the Shatalin plan moves rapidly towards price flexibility in Stage II and beyond, the Gorbachev plan trails. With its reduced speed of stabilization, the Gorbachev plan naturally soft-pedals the pursuit of price flexibility as well: flexible prices (in sectors where both plans agree they should be adopted) are put off until well after the time they would appear under the Shatalin plan.

Stage II: The Shatalin plan shifts to 150 days for Stage II and focuses now on monetary restraint and price flexibility.

Both the budget deficit and the rate of growth of money supply are to be reduced to zero (The Transition, p. 32 and p. 71). Towards this end, beginning January 1, 1991, enterprises which make losses will be forced to close and to lay off workers.

With the two exception of-"basic" materials[18] and 100 to 150 "essential" consumer goods, all wholesale, retail, and procurement prices fixed hitherto by the union Council of Ministers resolutions will be declared null and void.

The Shatalin plan is of mixed mind as to the pain that will follow from these measures. It is recognized that enterprises will fail and unemployment will increase. But the depth of these consequences, from the exceptionally hard and swift braking of the economy, seems hardly to have been appreciated. Instead, the plan derives comfort from the expectation that the privatization and for-

17 Higher interest rates, starting 1991, are also seen as a way of regulating enterprise demands for funds, thus introducing a further role for monetary policy.

18 "Basic" materials are exempted partly because they enter several products and a rise in their prices could prove ifnlationary (if wages cannot be adequately controlled as prices rise) in their primary impact and partly because they are produced, in the Soviet context, by monopolies with gigantic plants that make them *de facto* "natural" monopolies requiring price regulation as with utilities.

mation of up to 1000 to 1500 joint stock companies in food distribution, trade and services will immediately ease the supply of consumer essentials (whose prices, one may recall, are to be kept fixed, causing a disincentive to their production instead). Again, the plan expects to ease the pain by indexing wages to prices. But surely, this poses a danger to the program's disinflationary thrust unless, in effect, the emergency Presidential powers are used to enforce an "incomes policy" (to offset the prescription of indexing), as is also recommended by the plan—in which case the pain will not disappear.

The Gorbachev plan's second stage, coming long after the Shatalin plan's and most likely beyond the end of the 500 days, contemplates price flexibility as its main plank since the economy would have been braked (more gracefully) to macro stability. The continuation of a tough financial and credit policy, and a reduced budget deficit, is planned. Privatization will proceed apace.

Stage III: The Shatalin plan expects the third stage of 150 days to continue freeing more prices, now beginning to reduce (below 100 to 150) the number of essential consumer goods whose prices are to be controlled.[19] The plan also suggests that policy be directed towards constructing more housing, to increase labor mobility and therewith to moderate the structural unemployment that would result from layoffs as unemployed workers must find other jobs, including in other locations.

The Gorbachev plan, drawing its inspiration again from the Shatalin document, urges likewise. The promotion and materialization of a labor market are a main, novel feature of the third stage in the Gorbachev plan. Coming presumably at the end of 2-2½ years, the Gorbachev plan's third stage also envisages a gradual easing of the financial restraints (whereas the Shatalin plan's early third stage is still heavily into braking the economy).

Stage IV: But the Shatalin plan moves into an upbeat mood in the last stage, again of 100 days . The economy would have been stabilized and most prices freed.

"Denationalization and privatization will accelerate. By the onset of the 500th day, not less than 70 percent of industrial enterprises, 30 to 90 percent of construction projects, wholesale trade in intermediate products, retail trade, food distribution, and service outlets should be transformed into joint stock companies, sold or leased." (The Transition, p. 40).

The final phase of the Gorbachev plan has identical features: a balanced budget, market-determined prices, accelerated privatization and above all, a convertible ruble for domestic and foreign enterprises. As is to be expected, however, the date at which this convergence will take place is left unspecified.

In principle, the Gorbachev plan has clear advantages. Its conception of the union-republic relations is more consonant with the economic tasks assigned to the union by both plans, while also less fuzzily reflecting the notion of a country held together in a federal mode. Equally, the plan correctly shies away from initiating major price liberalization until the macroeconomic stabilization has been reasonably put in place. And it undertakes stabilization with more time and with less reliance on drastic fiscal and monetary policies that would brake the train to a halt but run the certain risk of at the same time derailing it. But these advantages also create risks.

The Gorbachev conception of the union has run into continued political opposition from Yeltsin. The battle has been joined and the two are maneuvering politically. As of late November, the rounds had gone successively to Yeltsin and Gorbachev. On November 16, Gorbachev fell on his face in his performance before the Supreme Soviet. The general reaction of these legislators and the intellectuals was that central authority was no longer operative: Yeltsin's Russia was defying Gorbachev's decrees issued under his emergency powers. But in a tactical manouvre a day later, Gorbachev unveiled a plan that reflected his own unifying conception of the union-republic relationship, and the coordinating role of the union therein, and Yeltsin had been temporarily contained. The icy reception of November 16 was replaced by thunderous applause on November 17, the Gorbachev proposals were approved by a massive vote of 320 to 25 in the Supreme Soviet and the reaction of the Soviet press was favorable.[20] But Yeltsin, emerging two days later, rejected the new initiatives as well. Gorbachev will therefore need to continue containing this opposition not just to him, but to his conception of the union as a harmonized set of republics.

Gorbachev's slower pace on stabilization and hence on price-flexibility reform also faces grave risks. At this late stage in the unfolding of perestroika, when five years have elapsed, the absence of a fast-paced program comes across politically as a cop-out; prudence can be misconstrued as a failure of nerve. This is a danger since Yeltsin's highly palatable populism is based on the false promise that quicker pace will be painless, rather than more painful.

19 Bread, milk, sugar, vegetable oil, essential medicine, school textbooks, public transport, and utility rates are mentioned as continuing candidates for price fixing.

20 See *New York Times*, 18 November 1990.

The growing distribution problems in the cities, in regard specially to bread and meat despite a substantial harvest, have also produced an acute sense of crisis that fuels the revolution of falling expectations as to what Gorbachev can deliver.

He therefore simply does not have the luxury of sticking with a slow-paced plan, no matter how much more sensible this would be under other circumstances. Without going to the extremes of the Shatalin plan, he needs to shift forcefully to a faster pace. How is this to be done?

Next Steps

Gorbachev's next steps will evidently have to address the issues of union-republic relations and the pace of reform.

The efforts at getting the republics, especially the Russian republic, to accept the view that the union must constitutionally play a coordinating role among republics (harmonizing their essential economic policies), will have to be continued. That coordination of key economic policies in different republics is desirable, in contrast to each republic going its own way, is a proposition that applies only to republics which remain within the union. The question as to whether and how republics can exit from the union is separate and will also have to be resolved politically in the near future.

The failure to appreciate the necessity of central coordination, with attendant economic instruments and political authority to use them effectively, comes from several sources. One school of thought presumes that harmonization (and therefore coordination) would emerge simply because different policies in different republics would lead to the survival of the "fittest" policy. But this ignores the more likely outcome of inter-republic confrontations. For example, the freeing of prices of food items in one republic would suck in food supplies from a neighboring republic where prices are kept fixed. This could lead to the latter republic also freeing prices. On the other hand, it might impose export restrictions on food and provoke a tit-for-tat response from the former republic, creating chaos in the process. This latter scenario materialized in the summer of 1990 when the Russian republic lifted procurement prices of food, attracting supplies from the neighboring Ukraine, which retaliated by imposing embargoes on such exports, prompting a quick cutback in oil deliveries from the Russian republic.

Again, it is asserted that macroeconomic stability for the union (in the shape of *ex ante* savings and investment balance) will emerge despite lack of fiscal authority for the center simply because republics will have to finance their budget deficits through public borrowing and with the central bank refusing to print money. But is it really credible politically to assume that the central bank will in practice be able to stand up to, say, the Russian republic, unless the central bank is backed by clear and firm authority vested in the center? Who will be able to face down the wayward republics? The assumption that economic logic, rather than the political realities (already manifest), will prevail to create the necessary macroeconomic equilibrium is not persuasive.

But, even if it were, it is absolutely necessary to grant explicit fiscal powers to the center. If the center is not endowed with the fiscal authority to raise revenues and to redistribute them, the republics will prosper or languish at a pace determined exclusively by their endowments, initiative and good fortune. Without the glue provided by the redistributive center, inter-republic tensions will accelerate, aggravating their breakaway tendencies. Promoting the disintegration of the union is not part of the Shatalin plan's preferred objectives: and yet that would be a likely outcome of its design of union-republic economic powers.

Thus, the Shatalin plan encourages divisive tendencies that would result in the disintegration of the union even as it cripples the union's ability to produce the necessary harmonization of key economic policies among the republics that would choose to remain in the union.

Down the road, it may well appear that the Russian republic, with or without Yeltsin, will tend to play an aggrandizing and even self-serving role, going it alone without regard for the consequences for other republics and for the union. In that case, for the remaining republics, the traditional hegemony from the center will be replaced by a dominating role of the Russian republic. It is therefore not inconceivable that a politics of containing the Russian republic may emerge, strengthening Gorbachev's hand. This politics may even turn to encouraging a fragmentation of the Russian republic. The declaration of sovereignty by several autonomous republics within the Russian republic has already brought such a scenario into the realm of possibility.

Those who hold the view that the union must play a strong coordinating role among the republics are also likely to be favored by the involvement, on the increase since the Houston Summit in July 1990, of international institutions (the IMF, the World Bank and the European Development Bank) in the business of perestroika. These institutions are unlikely to favor credit and other agreements without a clear central authority that can guarantee a coherent and coordinated set of policies across the country. In the absence of such steering from the center, contradictions and conflicts can readily emerge (as they

have already tended to) among the republics, rendering more fragile an already delicate economic situation.

But how can the pace of reform be quickened? How can prices be freed without generating an inflationary spiral? A coherent plan that controls the macroeconomic situation and fulfills the microeconomic objectives of price reform is feasible and now urgent. Its components can be spelled out as follows. [21]

(1) The option of a temporary freeze on private bank balances , sweetened with the offer of attractive interest payments, should be considered seriously. The adoption of such a temporary freeze [22] would enable price reform to be implemented on a faster schedule.

"On the macroeconomic front, the privatization process must continue, creating the assets that can be an alternative to cash holdings. But this is an inevitably slow process and increasingly seen to be so everywhere, even in fast-moving Poland. Evidently, a currency reform such as a partial freeze of the personal holdings of bank balances..., for say three to five years, would do the necesssary job of preventing an inflationary price spiral as prices are freed. As incomes and investments grow with the price reform, and stabilization takes root, the "desired" money balances will rise to match the frozen balances, which can then be released without serious inflationary consequences. New assets will also have become available through ongoing privatization. The planners ought to view this as a less painful, and more efficient, option to pursue than the cruder method of relying excessively on the monetary brakes [of the Shatalin plan] to resolve the macroeconomic dilemma with resulting unemployment and recession." (pp. 188-189).

(2) Next:

"A wage or incomes policy is absolutely essential for maintaining the macroeconomic discipline. The example of Poland, with rising unemployment, demonstrates the results of applying sharp monetary brakes. Indeed, the absence of wage discipline will perforce require a heavy dose of monetary restraint to control the resulting inflation, with severe unemployment as its consequence. A social contract on wages is absolutely essential during the transition to a market system if not beyond. Gorbachev will have to pull together the diversifying political leadership and groups in persuading the unions to accept the necessary discipline as a way of *avoiding* serious (macro) unemployment during the transition. The miners and railway workers need to be reminded that there is a trade-off between wage restraint and unemployment as tools of macroeconomic policy in the market system to which a transition is desired, and that the former is the preferred alternative." (p. 189).

(3) With these measures in place alongside the less drastic but firm braking of budgetary deficits and rate of growth of money supply, prices could be freed more freely even for "essential" consumer goods than envisaged in both the Gorbachev and Shatalin plans under a "dual pricing" framework for these items. The legitimate worry that social unrest would erupt and engulf the reform due to rise in the price of essentials could then be assuaged by adopting such a system practised in countries of South Asia:

"Following it, a minimal basket of consumption items such as meat, bread, sugar, and cooking oil...would be made available, in fixed rations per individual, at fixed prices in state stores. But beyond that, everything would be bought and sold in unregulated, free markets everywhere. Thus the system would combine elements of guaranteed access of a minimum basket to everyone in state stores, while letting the market incentives operate freely for the rest. The implied subsidy for the guaranteed distribution through state "fair price shops" can be financed, partly or fully, by explicit agricultural taxation. The tax revenue can be used to purchase the basket of essential items in the market for subsequent distribution at lower prices in state stores." (pp. 191-192).

(4) More recently, however, a yet more attractive way of implmenting the "dual pricing" formula for bread and meat has become part of the possible policy agenda for the Soviet economy. Thus, in two recent *New York Times* op- ed articles, written in quick succession, a credit-financed foodgrain-and-meat sale agreement with the Soviet Union has been proposed, stressing the mutual-gain aspect of such a deal. [23]

The mutual gain arises in the first proposal for an annual sale for five years of at least 20 million tons (half again of the "normal" imports by the Soviet Union in 1989) on credit, to be repaid in convertible currency beginning the sixth year. The sales are to come essentially from the

21 The details and quotes which follow are from Chapter 10 of the updated (1990) edition of my *Perestroika in Perspective*.

22 Certainly, it cannot be debated in the Supreme Soviet, and would have to be announced as a "surgical strike" under Gorbachev's emergency powers as part of a comprehensive and articulated program.

23 See Jagdish Bhagwati and Padma Desai, "From "Uruguay to Moscow," *New York Times*, 12 November 1990; and Senator Sam Nunn, 'The Gulf Isn't the Only Crisis," *New York Times*, 18 November 1990. The Bhagwati-Desai proposal has been reported and discussed by leading economic columnists: David Warsh (*Boston Globe*, 13 November 1990), Peter Passell (*New York Times*, 21 November 1990), Hobart Rowen (*Washington Post*, 29 November 1990), and Lindely H. Clark, Jr. (*Wall Street Journal*, 29 November 1990).

European Community, whose "surplus" agricultural production would find a temporary new market, enabling the Community to come forth with a more generous and acceptable offer of agricultural liberalization without which the Uruguay Round risks failure.[24] On the other hand, in the second proposal, which offers no details, the mutual-gain feature relates to the fact that grain sales financed with credits from the Commodity Credit Corporation would support U.S. agriculture, presumably offsetting the effects of the proposed reductions in budgetary support.[25]

From the viewpoint of Soviet economic reform, within which the first proposal is clearly set as a cornerstone, the deal has distinct advantages:

(i) the proposed imports are large enough to support a significant program of minimum-ration entitlements (in the dual-pricing framework) through state shops in the major cities, enabling the authorities to formally set free agricultural prices in the outside market;

(ii) the program can be implemented without the need for additional taxes to finance internal procurement: the imports sold in the state shops would soak up private expenditures and be a deflationary force in themselves;[26]

(iii) the immediate impact of such a program would also be to reduce the hoarding by collective farms that is currently feared as contributing to the distributional crisis in the cities: the expected price increases (that induce hoarding for later sale) would no longer be massive if an added 20 million tons of imports are proposed to be distributed annually; and, more important,

(iv) by enabling the outside prices of agricultural produce to be freed completely, it would accelerate the rate of privatization on land and reinforce the production response from all farms. The scheme would enable the Soviet economy to register prompt and substantial increases of output in the one area (agriculture) where other socialist countries (for example, China) sensibly moved ahead first, establishing a solid beachhead for more economic reform.[27]

(5) The role of foreign resources in accelerating the transition is, in fact, critical. Aside from the proposed credit-financed sale of grain and meat, the Soviet Union can use foreign investment in several areas. At the top of the list is the urgent need of the consumer goods sector for advanced technologies, enabling it to provide an increasing range of consumer goods to the restive population. But this route cannot be effectively taken unless profit repatriation, and some assurances on importing intermediate items where necessary, are guaranteed until some future date when the ruble becomes convertible. Here again, untied credits can be used in the next few years to assure these preconditions, facilitating successful inflows of foreign direct investment.

But, no matter how important foreign credits and resources are to perestroika's success, they cannot do much good unless they are properly integrated, as proposed above, into a coherent program of economic reform. Nor can they materialize on a significant scale unless glasnost, and the consequent goodwill of the West, remain secure.

Padma Desai is Professor of Economics at Columbia University and the W. Averell Harriman Institute for Advanced Study of the Soviet Union.

24 Bhagwati and Desai, *ibid.*
25 Nunn, *ibid.*
26 The budgetary liabilities of repayment would arise beginning in the sixth year, by which time the transition should have been made in some fashion.
27 In fact, even the halting progress of perestroika in farming has contributed to an acceleration in the rate of growth of grain yields in the last five years. This result emerges from the application of an econometric model developed by me in "Weather and Grain Yields in the Soviet Union," chapter 10 in *The Soviet Economy: Problems and Prospects* (Oxford: Basil Blackwell, 1987), which permits me to adjust yield data for weather variability. See "Grain Yields Under Gorbachev," mimeographed, Economics Department, Columbia University, December 1990.

500 Days: Shatalin At Columbia

(On October 4,1990, Soviet economist Stanislav Shatalin, coauthor of the so-called 500 Days plan to propel the Soviet Untion into a market economy , spoke to a packed house at Columbia's School of International Affairs. The session was chaired by SIPA Dean Alfred Stepan; a former student of Shatalin's, Harriman Institute, economics professor Richard Ericson , agreed at short notice to serve as interpreter. The session lasted two hours; what follows is a slightly edited transcript , with additional translation based on the Harriman Institute's tapes)

[*Applause*] You have welcomed me so well. I wonder what it's going to be like after five hundred days! [*Laughter*] The "Five Hundred Days" program is more of a symbol than an actual means of bringing about a market economy. It would be easier if it were a question of teaching Americans at Columbia University to go to a command economy rather than getting the Soviet Union to a market economy. [*Laughter*]

In the fifteen minutes that have been given to me I will give you a quick outline of the program for a transition to a market economy that is now under consideration in the USSR Supreme Soviet and which has already been adopted by the Supreme Soviet of the Russian republic. The program is now being examined by the parliaments of all the republics. By the fifteenth of October we must come up with a new text which takes into account all the comments and discussion in the fifteen republican and the all-union parliaments.

There are three programs which have been presented to the Supreme Soviet. One is the program worked out by the President and his advisors. There is the government program — the Ryzhkov program. And there is this program. While all these very heated discussions are going on I've decided to come spend some time in America and see a what a real market looks like. [*Laughter*]

I'm going to name some of the basic principles behind this program and then I will answer questions. First, the program accepts all forms of property, including private property, and absolutely avoids any ideological bent. I want to emphasize that this is not a program for a market economy but for a transition to a market economy, which includes the stabilization of the economy. The second principle, close to the first, is that our program accepts and encourages free enterprise.

The third, and this is something very important which we had to keep in mind in drawing up this program is the following. Practically all of the republics have declared their economic and political independence and are, using the terminology of our President, sovereign states. One of the key problems was to take into account all of the specific details and differences of the various republics while at the same time creating a program that would unite the republican economies into a unified all-union market. In the past we always described them as sovereign republics and so they had the right to leave the union and so on. But that was a verbal covering, not for real. Now that the republics really are sovereign states, we have the difficulty of trying to develop forms for the introduction of a credit system, a monetary system, fiscal and monetary policy that would allow them to stay connected and go through the transition to a market economy through the structures of the central union.

In general we had to base all of our calculations upon the current realities of the Soviet Union. That is, that the USSR that we have known up until now is becoming a thing of the past. The union must be built by consent, the consent of sovereign states, upon brand new principles. And in this program we tried to take into account that the sovereign republics are actually sovereign states. We tried to determine what functions the republics should give to the union. The question was very difficult, but discussion revealed that if we took sovereignty of the republics into account in a very specific sense, that this could lead to the creation — through a new economic system — of a union of a very different type.

I won't heighten the fact that there is a very serious struggle going on between all-union legislation and the laws being passed by various republics. The economists who worked on this program all came to the agreement that to come out of the crisis situation in which we now find ourselves, we must all work together. But we must take account of political and national realities which exist. Now we have to accept the principle that in our country, as before, the supreme law is the law of the union, but that the republics are given various economic functions and resources located on their territory.

The third [*sic*] principle, and this is not really a principle but a complex of measures which need to be undertaken, is the need to introduce a very severe budget regime, very strict monetary and fiscal policies so as to

get a grip on the budget deficit, and measures which would gradually strengthen the consumer goods market. That is, we wanted to work out a program that would bring about the stabilization of consumer demand and perhaps, if it is very successful, raise the value of the ruble.

In the current situation, as you know, the ruble has lost its value as a currency. Republics and cities, so as to ensure goods for their populations, have taken measures to prevent the outflow of goods. This means that the value of the ruble as a currency has fallen. Those familiar with our economic circumstances know of the distribution by rationing, distribution of products through enterprises, other non-market channels — the consumer market is now practically non-existent. Everyone is running away from the ruble. There is emerging a system of parallel currencies — ration coupons, dollars, cigarettes, whatever — and these are now real (in quotes) "currencies" being used, and not just in the black market. We seem to be well on the way toward getting all the republics to agree that they won't pass contradictory laws or start printing their own currencies. We will all try to work together for a single, strict financial and monetary policy.

The next principle is that if the measures for stabilizing the economy, for revitalizing the budgetary and monetary systems become successful, then we will be able to begin price liberalization. Of course, we will never be able to do this in five hundred days. It will take longer. But a decision is needed and if we do not begin to take these steps then we will not have an economy. There are a lot of questions now about the attraction of foreign capital for revitalization, but for this to be effective you need hard currency. And its very hard to bring about a convertible currency because the ruble is not yet convertible within the country. In the western economies the one item that is absolutely scarce is money, whereas in our economy the one thing in absolute surplus is money. [*Laughter*] If we cannot succeed in stabilizing the ruble then it will be absolutely impossible to bring about a convertible currency. We need a hard currency as the basis for the development of a market economy, to be able to settle things in the west, to purchase.

The next difficult issue which we examined in our program is the question of land reform. You know that we have our collective farms and state farms. They have shown that they are inefficient. Therefore the program that will be approved by the Supreme Soviet does not dictate but suggests that there be a lot of private ownership of land.

I should have mentioned earlier when I was talking about free enterprise and property that the idea of privatization or de-nationalization of the economy — of many state enterprises — is one of the key principles for a transition to a market system. The question of private ownership of land is still very controversial. But the process of change is going very rapidly. Only a year and a half ago, the policy was such that no form of private ownership could be tolerated. Now even the government's program considers that private property is a necessity. This doesn't speak directly to the question of private ownership of land, but experience has shown that ideological barriers to economic activity are gradually being removed.

Many in the country are accusing us of destroying the collective economy, state and collective farms and all that existed in the past. We believe that all forms of property must be on equal footing. Moreover, the new forms of property must be given special support. The president has called for nationwide discussion of the problem of private property and even a popular referendum. I do not think that it will go that far, but there will be some sort of compromise. A weaker form of privatization of land will be suggested. This is my view, although I myself support dropping restrictions on private ownership of land.

The next question that was very difficult for us is the issue of the non-commercial sector and the service sector. I'm talking about health care, education, culture. As you know, in our country these services are offered basically for free, although there is a parallel structure of services for payment. Our program states that the basic social guarantees ought to be preserved, that there should be free health care and education. However, a set of supplementary services must be formed by the commercial sector, and market relations should also prevail in this sphere. The program also looks at a number of measures for the social security of the population, such as indexing and income maintenance. We are thinking first of all about pensioners and the poorest section of the population.

One of the key principles of the program is that we are counting on widescale cooperation with the west. And under "west" I include the east as well, South Korea, Japan and so on. [*Laughter*] I use term "west" for the market economies. Without cooperation with the west we will not build an efficient market economy. This help must be multifaceted. It begins with credits and goes on to moral and intellectual support for the reforms. Of course, the problems are extremely serious. The liquidity of the Soviet Union has fallen dramatically. You know all this, and you know about the monetary problems of our economy. We probably have never been in such a difficult position regarding foreign exchange than we are now. We hope that the program takes off and that there will be grounds for western cooperation. In my opinion, a good market system and a healthy Soviet Union —

stronger, a more democratic economy, more open, a USSR that is no longer an empire — is something that is in the western interest.

The last issue is not an economic one, but of the political system, of political reforms which will support the implementation of real economic reform. People must feel that they are living in a state respectful of the rule of law, within a political structure with "normal" political institutions. People must know that these structures will help them and will not forget about them in the rush to change, and therefore they will be able to give support to change.

And a last half-joking, half-serious comment. You know, when we worked out this program, the Five Hundred Days, we did it according to the old Russian tradition — at a dacha. Even Alexander II sent his advisors out to a dacha and told them to come up with a reform, and they came back with the freeing of the serfs — even if it wasn't a very good law. [*Pause*] In the sense that it didn't work very well. [*Laughter*] At this dacha, we created a free political zone where all views and positions were allowed: democrats, social democrats, monarchists, anarcho-syndicalists, all sorts of parties. And then when the representatives of the fifteen republics joined us in the first couple of days, the situation became extremely complicated. All were quite angry for a while. And seeing this, I announced, "If I see you working on these difficult questions angry and without a smile, I'm going to start fining you. And not in rubles, whose value is tumbling, but in Swiss francs!" One thing we've had in our developing democracy, and you see this watching the debates in the Supreme Soviet, is that everybody's acting like they're in a gladiator fight. So when we speak about cooperation with the west, I think that the smiles of westerners including Americans, and your applause (which I haven't earned), will help us in solving the problems of instituting a market economy. Thank you. [*Applause*]

QUESTION & ANSWER SESSION

QUESTION: You stated that Russia is not an empire. In that case, why do Russian troops kill women and children, and so on. Answer for your demagoguery.

SHATALIN: You know, for me the issue of what's happened in Azerbaijan, in Georgia and other places, Kirghizia, in the Baltics, is a disturbing and grave problem. As to demagoguery, free persons have the right to label each other with all manner of words. Of course our history has been full of tragedy. However, we should not believe that all of this is in the past and that the things about which you have spoken cannot happen again. All the same, I think that in solving the problem we should attempt to gain the people's trust, tell them the truth, give them rights; of course, rights which are enforceable. And in this way we can move to correct the problems which you mentioned.

QUESTION: I wonder whether you could elaborate about your picture of the debate at the dacha which you described. I happen to have read most of the interviews which you gave in the Soviet and in the western press, and I have found them very persuasive. And for that reason I am all the more curious about the kinds of political and economic arguments that are being counterpoised to one another in the debate about economic reform in general, but perhaps about a few plans in particular.

SHATALIN: We did not really have political debates. And formally there is nothing in the document about those political changes which are necessary to accompany the economic reform. Of course we all understand that this is realizable only with democratic political structures. We basically discussed the economic problems. The most important issue was the following: Who owes whom the most? The principle of the declarations passed by republics is that everything located on the territory of the republic in question belongs to that republic. We had to organize the scheme so that each of these republics, if they were to remain in an economic union, would find themselves in a more advantageous position. To get out of this crisis all must realize that the real set of mutual economic relations is very large.

One of the hardest questions was tax policy. Originally our document had the enterprises and organizations paying taxes into the local government and republican budgets. The sovereign republics would then pass on the funds to support the various functions and authority delegated by them to the union. And in this version the level of tax transfer for each republic would depend on either GNP or GNP per capita. But another approach was suggested, that there should be a federal tax on enterprise profits, the rate of which should be determined by consent of all the union republics. Now, in the program which was presented by the President to the Supreme Soviet, there is this provision for a federal tax on enterprise profits.

Another difficult problem was how to determine the share of the debt to the west owed by each republic. Here also a sort of compromise was found. We took note of what was already owed and fixed who will pay what and how. But in future any republic, if it so wishes, can take on new debt from the west. It alone, however, will be carry an obligation to repay that debt. This is one of the most difficult questions, in an economic sense, that we discussed with the various union republics.

QUESTION:I'd like to know a little more detail about you plans for the privatization of state enterprises...

SHATALIN: ...Let us propose the following. Right now the population has in its hands roughly four hundred and fifty billion rubles. That sum can be divided into two parts. The first is the portion that people would immediately part with if goods and services appeared on the market. The second portion is what could be called the population's capital, which it would not rush out to spend. It was therefore proposed that small enterprises — in services, in agriculture, in retail, in the restaurant industry — could be bought by individuals who would become entrepreneurs.

As concerns the largest, most important enterprises (in terms of their scale and output), of course there can be no question of privatization at this time. People simply do not have the money for this. A few schemes have now been proposed as to how the enterprises of the state sector should be turned into joint stock companies. These firms, even if they remain state-owned, should be allowed freedom regarding their economic activity. There are a number of other methods of privatization: leasing and the introduction of stocks which could be bought by other enterprises, by the population and by foreign entities.

I think that to form a normal economy we need to have a normal labor market. Naturally, the question also arose as to whether we want to make people pay for housing. The principle now is that all housing should be paid for. It must be a market good. But for the poorest section of the population, those socially disadvantaged like pensioners, invalids and so on, it is proposed that they be given apartments outright or for small, symbolic payments, but without receiving it as their property. Those with higher incomes, however, will have to look for housing opportunities in the market. In the end, the revenue from giving away wealth to the population will equal the agreed-upon prices. If only the population will purchase it. In fact, in the countryside we practically already have paid housing, rentals and cooperative housing. Therefore, it is only in the massive, state-owned apartment complexes that a market basis is lacking. Even these we intend to sell off as property, especially the new units.

Of course, its very difficult to set up a labor market. Our population lives in regions with their own traditions and culture, with their roots. Migration of the population from man-power surplus areas like Central Asia to shortage areas like the Ukraine and the Baltic area is difficult because of non-economic factors.

You rightly raised the question of how we are to valuate the worth of housing and enterprises targeted for privatization. There are no market prices, so any price put on an enterprise will be a non-market one. However, you must take into account the fact that gradually more and more prices will be freed up and that a smaller proportion will be set by the state. Eventually there will be a more or less equilibrium market for housing.

Another thing about privatization. We understand that the portion of the capital stock that the population can buy is actually quite small. In the rest of the world, including the United States, methods have been worked out for privatizing enterprises for which there is not enough ready capital available in the population. Of course, this raises a number of very serious political as well as economic questions. In our country these are exacerbated by the nationalities tensions, and the this makes the problem very, very difficult.

Some have suggested that we just give away state property for free. You could then divide it equally among the population, including the children. Another approach is to give property to the labor collective that was exploiting it as a state enterprise. Here another trap arises. Some work in very good, successful enterprises while others work in very bad ones. We would create a new version of serfdom, where those working in the bad enterprises could never get out of them. And who owns more? Let's say that I work in an enterprise and I earn more in a month than my colleague. Let's suppose that that's fair. So I could say that since my income is higher, this enterprise is more my property?

We weren't able to make any specific recommendations with regard to controversial forms of privatization because they would run up against social, political and especially nationalities problems. The issue of privatization as it appears in our program is still open for discussion, and we want to consult with western economists to figure out how to do it most effectively. It is all the more urgent because if privatization is so difficult to bring about, then how can we expect the economy to become more dynamic in the next year and a half?

QUESTION:Your neighbors embarked earlier on a departure from a central command economy. I"m thinking particularly of Hungary and Poland. My question is: Do you pay attention in general to their experience in creating capital markets, a banking system, marketization? Do you consult with them, and if so, what conclusions have you drawn (allowing for all the differences in scale) from their experience?

SHATALIN: We are of course taking into account the experience of the Eastern European countries as well as world experience in privatization. Your question is quite just, as Eastern Europe is closest to our condition. Let's start with Poland. What can we say here? Poland is more or less homogeneous. Virtually everyone is Catholic. In

Poland there was Walesa. [*Laughter*] And they also had the Pope. [Laughter] To finish, Poland has suffered through inflation for much longer and the population has had time to get used to it. Now about Hungary. It's a monolithic nation. It is a country in the center of Europe and it has a European market mentality. It has a great agricultural sector, a great one.

In our country, everything is exactly the opposite. Masses of nations, of people, of religions, of conflicting socio-political and moral values, cultures and so on. Our experience has been a troubled one. But there's another approach. We have a new ambassador from Poland, and I spoke with him for some time. He taught me how *not* to privatize. He said, "You have tremendous problems ahead of you, and you should not undertake privatization the way we did. Of course, it would be stupid of us not to take account of the experience of these countries, to learn from their mistakes and successes. But you understand, to copy the experience of others in economic policy is very difficult. The idea of capitalism in Japan, in Sweden, in the US and in the USSR is not quite the same. [*Laughter*] There are many capitalisms and you have to take into account a great number of factors not covered by any program. To copy the experience of others is like what the great Sir Francis Bacon said: A monkey's resemblence to humans is precisely what makes it disgusting.

QUESTION: Among the issues that were debated in the Supreme Soviet in the last couple of weeks, one of them was the question of, after the plan is adopted, what institution would there be to implement and administer it. And as you know, this led some people to argue that an administrative defeat would come if the central economic ministries were [left] in place. Which I think that you, in your salty way, shouldn't think a very good idea.

SHATALIN: I think that this is one of the most important issues related to the implementation of our program. How pretty it looks on paper. If there is no mechanism for its realization and people able to carry it through then this is all meaningless paper. There has been talk that we need to introduce presidential rule "of the American type." This is, of course, a crude comparison with America. The idea is that the President should become the organ of executive power. On the other hand there is the problem of who will implement the program at the republican, provinial and other levels of the power pyramid. This issue is being actively debated at the moment; legal scholars are working on draft proposals. But this is a really difficult question. I consider that this program will be implemented, regardless of organizational support structure, only if the President is personally accountable for it.

We modestly proposed to set up under the president an inter-republic economic committee. It's not clear what its real powers or structure should be, but it should act as a sort of extraordinary organ overseeing the reform, spotting complications, what measures need to be taken. All the republics must be represented. Now it is impossible to simply issue orders from the center. The question arises as to whether we need the government in its present form or whether we should create some sort of council of the national economy to replace it. On this point I really cannot add anything.

QUESTION: Would you say something about the effect of migration within the Soviet Union and emigration from the Soviet Union on your plans? And secondly, what's happening and what do you plan to do about it. One has the impression that many people migrate in the country because of fears. One of the reasons for returning to or leaving a republic is because of environmental reasons. One hears that twenty percent of the population of Byelorussia must leave where they're now living because of the closing of factories and the effect of regional economic trouble. How big a problem is it, and what are your plans for dealing with it?

SHATALIN: Well, in the program we really didn't deal with this problem even though it's a very big one. First about internal migration. I've already spoken about this. I think that in the near future nothing will change, that from a few republics -- the Central Asian and Transcaucasian ones -- there will will be no real migration to other regions. Therefore, we thought that our task was to tailor structures that would be suitable for these specific countries, their mentalities, religious views, because it's a different world.

Naturally, the problem of emigration to the west is a very difficult one. We are currently very worried about it. Cultural figures are leaving, scientists are leaving. This is retribution for our mistakes. It's something we must pass through because we cannot erect barriers anymore. Although our democracy is young, it has matured to the point where we cannot force people to do things like that. I think that if the process of emigration to the west is normal and open, than many people might help the country and come back. It's a reality; what can you do?

QUESTION: You spoke about the experience, what you learned or the limitations to the applicability of Poland and Hungary. So I raise that other country that is more like yours: Yugoslavia. What did you learn from the experience of Yugoslavia? What would you do to make the Soviet outcome different from that sad South Slavic state?

SHATALIN: The country which has conditions most similar to ours is Yugoslavia. I don't know if any of its republics have made a declaration of full political and economic independence yet. So I think our problems are even more complicated. Also our problems are more difficult to solve because, for a long time, Yugoslavia has carefully studied a series of different ways of managing the economy. You can, of course, learn from Yugoslavia; in particular how they were able to resurrect a convertible dinar. However, the fact is that despite a superficial resemblence, Yugoslavia is a very different case in many respects. Where the system benefits and what provides for organizational normality is a work ethic. That is something we need to recreate, because over the years our work ethic has vanished. The last point about Yugoslavia is the preparedness of the population to see through a radical policy, which is on a greater order of magnitude than in the Soviet Union.

QUESTION: If you would, please elaborate a bit more on the plans for the health care system. You mentioned that there would be parallel services offered. I fear that this is a kind of economic apartheid coming in the Soviet Union, especially in the health care system where low quality or difficult-to-get services will be provided for free, but a lot of the higher services would probably be for hard currency.

SHATALIN: This really is a problem. Presently there is, of course, a parallel system, but the services offered for pay are very few. There exists the danger of which you spoke, that paid medical care -- which is considered of higher quality -- will be only for people with higher incomes. Therefore, despite the transition to a market basis for certain medical services, we consider that during our country's long recovery we must preserve free health care. I think that as we move to market relations, this will put pressure to raise the quality in medical care. Let us say that you want an operation for free. But if after the operation you want a room with a television, you have to pay. If you don't want that, it follows that you'll be in worse circumstances but it will be free.

If we adopted the French system of health care, I think we could have paid education, market conditions for the producer in health care. The idea is to create a new system which compensates the work. Those in need of services receive them practically for free, while those providing the services are paid in full. It seems to me that you can structure it so as to offer free medical care. You can create a mechanism that offers the consumer free health care while at the same time compensating the producer. The problems of health care, education, science and culture are being discussed in the Supreme Soviet and in the Presidential Council. We want to make things so that health care is of higher quality, increasingly on a market basis for most of the population. But any difference is substantive.

(*Shatalin was asked whether he wanted to go on taking questions*)

Well, let's have some more, as many as you like. Just don't ask difficult ones. [*Laughter*]

QUESTION: My question is about the role of foreign capital. It seems to me that rather than paying off the budget deficit (as you called it in the speech), what the USSR could use now is direct investment by corporations. I'm wondering what your attitude is toward this, and what is the attitude of the republics?

SHATALIN: Absolutely positive. In three or four days perhaps, there will be a presidential decree on foreign investment giving western firms the right to establish enterprises with one hundred percent foreign ownership. The Supreme Soviet is already preparing a law. Its already written and in committee, where they're studying the problem of which you spoke. They're examining the means by which foreign capital could be attracted: taxation policy, the possibility to repatriate profits, to make the position of the western investor at least no worse than that of a Soviet investor. In the beginning, conditions for western investors should be made better than for domestic investors.

I think that there are many opportunities for capital in our country. There is much which could be used — timber, metals — anyway, many many opportunities. There is much for foreign capital which is able to use these resources. For instance, some firms are proposing the heavy exploitation of raw materials, especially gold, and there are great opportunities for western participation here. There are many functions for western capital which could be very helpful for our economy.

There are some who call on us, "Don't sell off the country!" But I think that this type of foreign investment is not selling the country. Instead it is a means to raise the population's standard of living and the level of efficiency in the economy, which you get through this additional cooperation. We're not going to sell the Kremlin to foreign interests. [*Laughter*]

QUESTION: How do you believe that once a market economy is established in the Soviet Union, that attempts [be made] to preserve a degree of equality and ward off some of the problems of a market economy and ensure that all Soviet citizens have the ability to participate to some degree equally in the new economy?

SHATALIN: Well, that's a tough question. When we consider the ability of all citizens to participate in the market, we must begin from the fact that there now exist inequalities between different people. For better or worse, we are trying to distribute goods according to

labor. We think that for people who have no other property aside from their labor power, there is the possibility of wide disparities in income with the introduction of a market economy.

But you understand, you have to make a choice. There are two possibilities: Either you have a small pie divided equally or a large pie divided unequally. Moreover, we all know that the small piece in the large pie is bigger than any of the equal pieces in the small pie. You have to make a choice. Which road do you take? Taking a small, equally divided pie or making the pie bigger and the slices more unequal, but with greater efficiency. I haven't answered your question about how everyone will participate in a market economy. For some people there will be great differences. This is something which we wanted to account for in our document, in our program. What was the first part of your question?

QUESTION: Once the market economy is created what would be the method by which your government would establish or maintain some degree of equal access to the economy?

SHATALIN: I've answered that question already.

QUESTION: Perhaps the value of management is at least as important as the stock of capital. So I want to ask you if you have given any thought to give a portion of these equity shares of the typical large enterprise that might be owned by private interests outside the enterprise to ensure the direction of savings and energetic managers to run those enterprises?

SHATALIN: We did not figure it out in numerical terms, but we are very much against what some suggest. That is, giving the shares to the workers of an enterprise's labor collective. I think that this is a very bad idea. It would put different people in unequal positions solely based upon which enterprise they happen to work in. I think that enterprises must sell shares to other people, including westerners. We need to get the process going, to deal with the problem of temporary owners of shares. We want people to own shares for a long period of time so that they will have a long-run interest in the performance of a firm.

QUESTION: My question is more theological than political. In the *New York Times* it was reported that you operate not only according to mathematical calculations but also according to astrological ones. [*Laughter*] First, is this an accurate report; and second, does Gorbachev know about this? And if so, what does he think? [*Laughter*]

SHATALIN: I gave that interview to my friend at the *Times*. I was telling him about the country and he asked me, "What then does the future hold, far far off?" And I said "Only the stars know this." [*Laughter*] By the way, I do believe in it. I don't know if Gorbachev reads the *New York Times*, but he's probably been informed about it. How he feels about this I can't say, but I can give you his phone number.

QUESTION: A few days ago on the occasion of signing the joint communique giving the Republic of Korea full [diplomatic] relationship, that day the Prime Minister [of the ROK] said that the historic time of East and West has finally come to the Far East, and the spirit of Gorbachev is recognized here. He thinks that problems between the two countries will be solved, and in fact [that there will also be] a more concrete development of relationships between Japan and the Soviet Union. Now, how do you see the economic cooperation and development of relationships between the Soviets and Korea and with Japan?

SHATALIN: Both?

QUESTION: If you can answer both, please answer both.

SHATALIN: You know, on October 25th I'm going to South Korea. I'll be there until November 10th. I am therefore interested in relations with Korea. I will say seriously that despite the fact that we haven't had diplomatic relations with South Korea, there have already been a tremendous amount of contacts with South Korean representatives figuring out what can be done. Many organizations have invited me there. I'll be there for two weeks and I will see what kind of opportunities exist. We want to have excellent relations with South Korea. And also with the North. [*Laughter*]

QUESTION: What South Korean businessmen and people will ask you is what kind of opportunities are there. That's why they're inviting you.

SHATALIN: There are very many projects being proposed by South Koreans. They are very big, large-scale projects. There is room for our relations to be on a grander scale. Taking into account Korea's finances and capital, I think there will be economic mutual assistance, capital... generally there's a lot of room for effective cooperation.

QUESTION: In light of the situation that you have described, about monetary reform and uncertainty about the future economic prospects and so on, and also in relation to the fact that power is being devolved to the fifteen separate republics, is there not a danger that for the next five hundred days and perhaps even beyond, that each of these republics will tend to develop in a sort of autonomous and inward-looking direction? Attempting to promote self-sufficiency because there's no money or convertible currency for which they can get their exports, and so on? In the future when you want to have a more closely integrated economy, there might be a situation in

which each of the fifteen republics have built up whole sectors of industry and other forms of production that are based on producing only for the local republican market. Would this not be a problem for the future as it has been foreseen by yourself and your co-workers? What plans do you have to deal with that?

SHATALIN: The problem of autarky is now very big. Republics are now blockading deliveries. They are illegally encroaching on the rights of enterprises and are limiting the cross-border flow of goods, which harms entrepreneurs. It not very legal. The sole agent of the market is the free entrepreneur, and no republican barriers should exist. They cannot attempt it. It turns the people towards economic banditry.

It seems to me now that on a certain level the republics will follow a unified policy on budget and monetary issues. This will go on for about a year and a half. If we are successful, then I think that people will understand that its easier to fly together. I'm talking again about the economic and social problems that exist. If we are not able to do this, it will be because we lack the economic, political and intellectual culture needed to make the transition to a market.

QUESTION: I'm stunned when you say that Mr. Ryzhkov's plan and your plan are mutually exclusive. Do you believe there is room for negotiation for a compromise plan, and can a compromise plan stir the Soviet economy? And following on that, because there will be a compromise plan does that make aid from the west that much more urgent? How much aid do you think is necessary?

SHATALIN: We need one program. It is impossible to carry out two different programs. I've already stated in our press that the two programs are very difficult to reconcile. I said to the *Financial Times* that these two programs are of two different blood types. If we speak about both programs, on the one hand ours is for a more or less free market; normal floating prices; real importance for the republics; and an understanding that only, only through the republics can a real economic reform be implemented. On the other hand, the government's program relies on administrative solutions in these matters — raise this, lower that. There is a fundamental difference in approaches and there can therefore be no compromise. On many individual issues — problems related to stabilization, the financial system, measures on the ruble — everyone understands what needs to be done. But *how* to do it...

ERICSON: It's the difference in the underlying approach that makes them incompatible.

STEPAN: I'd like to thank you for coming. Really, it's been an extraordinary opportunity for everyone in the audience to have an open discussion with you at this historic moment. Thank you very much.

[*Applause*]

SHATALIN: When I am in my last battle in the Supreme Soviet, which is going to adopt some other program, and they start booing me, I will say, "I was before another auditorium where they completely disagreed with me. And yet they applauded me heartily."

Thank you.

[*Applause*]

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